



Mayor, Thomas P. Hanafan

To the Honorable Members of the City Council:

In accordance with the laws of the State of Iowa, I hereby submit my proposed budget for fiscal year 2005 – 2006. As with the previous three budget cycles, fiscal challenges persist. Revenue generation continues to be constrained by the dropping rollback and certain costs that are either controlled by the State or are simply difficult to control, such as health insurance costs, continue to rise dramatically. To address this challenging fiscal environment, the budget before you includes necessary cuts to City operations and a proposed tax rate increase. The tax increase will alleviate the need for further cuts that would jeopardize the City's ability to provide appropriate levels of our most basic public safety services.

To fully understand the difficulties experienced during the budget preparation one must first recognize that governmental finances originate and disburse from a multitude of different funds. Each fund has its own rules governing the generation of the revenues and the expenditure of the revenues. While expenditure and revenue adjustments can be made to balance funds such as the general, road use tax, and sewer rental, others funds such as trust & agency and debt service are much more complicated and expenditures from these funds are dictated by law, bond market requirements, labor contracts and established policies.

This budget cycle follows years of previous cuts, tax increases and depletion of fund balances. In order to present a balanced budget for FYE 2006, it is unavoidable that difficult cuts must be made again, and the property tax levy has to increase. It is not a question of whether or not taxes should go up, but a question of how much.

### How did we get to this point?

It is imperative to review how we managed to get to this point. With growth and development also comes the responsibility of providing essential governmental services. However, it is a fact that despite the growth in the City, our cash balances in the general fund continue to decrease. Prior to this trend of difficult budget cycles, the City ended FYE 1999 with a \$2.3 million general fund operating cash balance. Increasing service demands, significant state budget cuts and the decreasing rollback have diminished this reserve to only \$277,697 as of June 30, 2004. It is estimated that the operating cash portion of the general fund will end the FYE 2005 in the deficit position by as much as \$200,000.

Last year the City recognized it was providing a level of services it could no longer afford, and thus we lowered revenue estimates and made cuts in expenditures ultimately leading to the loss of City jobs. However, these cuts were painful to implement and in certain instances unavoidable utility expenses and overtime costs were incurred resulting in less savings than had been expected for the current fiscal year. In reviewing the current budget it was determined necessary to increase the non-personnel operating expenditures by \$630,000. Additionally, non-property tax revenues were further reduced by \$360,000 with the largest change being a reduction in interest earnings of \$150,000. This made it apparent that property taxes must be increased as well as transfers in from gaming. This budget redirects \$2,800,000 in gaming revenues to operational expenses. By utilizing a combination of difficult cuts in staffing and an increase to the property tax levy, the City will be able to deliver a balanced budget by the March 15<sup>th</sup> statutory deadline.

### Details of this Budget

General fund revenues which are supported primarily by property taxes are planned to increase from \$38.3 million to \$39.5 million, a 3.1% increase. The increase is in-line with inflation and does take into account all the factors listed below. Without the tax rate increase, revenues would increase much less than the rate of inflation.

## Revenue Summary

- 1) Market valuations of the City increased 3.5%
- 2) Residential rollback dropped from 48.5% to 48%
- 3) Taxable valuations of the City increased 2.8%
- 4) Tax rates proposed to increase by 62.73 cents to \$18.394 (3.5% increase)

## Expenditures

Few options remain to cut non-personnel expenditures. It is imperative that we are able to train staff and provide them with the necessary equipment to perform their tasks. However, the City has been operating with zero increases to supplies and services for several years. The results of this practice have started to catch up with us in that capital equipment replacement that has not been allowed to occur according to normal depreciation schedules are now being stretched well beyond their expected life and repair costs are increasing or even no longer an option as certain equipment must simply be replaced. The following list details the expenditure cuts in this budget.

- 1) Reductions in non-personnel in the amount of \$170,000
  - a. Supplies and services cuts have been identified at \$131,000
  - b. Closure of Westwood Golf Course resulting in net savings of \$39,000
- 2) Reductions in personnel in the amount of \$575,000
  - a. Two firefighter positions eliminated from authorized levels
  - b. One firefighter currently considered over-strength
  - c. One police officer (non street assignment)
  - d. One civilian clerk position in Police department
  - e. One clerk position in Parks department
  - f. Risk Manager position reduced to part time in Finance Department
  - g. Three part time positions at the Library
- 3) The City print shop will close and large print jobs will be outsourced

## Gaming Budget

Gaming revenues are budgeted at \$4.5 million. Transfers to operations are planned at \$1,550,000. \$1,250,000 is budgeted to be transferred to health insurance costs. \$620,000 is planned to subsidize the debt service levy. \$850,000 is contractually obligated leaving only \$275,000 for capital equipment needs or emergency expenses.

## What does the future hold?

It is clear to me that Council Bluffs as well as the other cities in Iowa will have some difficult times going forward. Now, more than ever, citizens and elected officials need to closely examine the level of services actually required and balance the cost of those services with the funds available in property tax dollars and user fees. While the City will continue to provide the essential governmental services required, the degree to which these are provided most likely will change in proportion to revenue cuts imposed upon the City by the State.

The City will continue to work closely with bargaining groups to offer competitive wages, reasonable benefits, and safe and productive working environments. The City is at the \$8.10 levy cap and has imposed the emergency levy. Raising taxes to address the declining revenues in the general fund is not directly an option. Rather, the only revenue solution remaining is to take more gaming subsidies out of the debt service fund and place them in operations necessitating an increase to the debt service levy. A similar tactic could be used to remove the \$1,250,000 in gaming going into health insurance costs. The property tax levy supporting the City's health insurance would then need to be raised further.

The finance director will be developing a three year operational budget to start addressing both revenue and expenditure issues that are already evident for future years. This will allow us as policymakers to address the issues prior to the traditional budget cycle. Efficiencies that can be identified throughout the year will alleviate cuts that are likely necessary next spring.

Barring a State legislative fix to the rollback, property tax revenues for FY 2006-07 will likely drop. This is apparent since FY 2006-07 property taxes will be based on market valuations as of January 1, 2005. These valuations appear to be only slightly higher than valuations from January 1, 2004. However, with all the construction taking place this calendar year, the January 1, 2006 values are sure to be significantly higher. When the financial environment improves in FY 2007-08 the City will need to address the following issues:

- 1) Recover balances to reasonable levels
- 2) Reduce the use of gaming revenues for operations
- 3) Reduce the use of local option sales tax revenues for debt service

### Summation

One of responsibilities of elected officials is to make difficult decisions during difficult times and it is time for us to make the decisions. The State imposed increases in the City contribution to police and fire retirement costs (31.5¢ increase to the levy) along with increasing health insurance costs will require a commensurate increase in property taxes until the City can successfully negotiate a more equitable rate of employee contributions to cover health insurance costs and increasing pension costs. The City has had some success in this endeavor and is adamant that these changes must occur or the City may be forced to outsource many of the services currently provided by City employees.

By making the tough decisions now, the City will be able to get through these difficult economic times without placing the City's financial resources at risk for the future. Delay of prudent action will only worsen the decline of cash balances and will inflict damage to the City's ability to provide services in the future.

Sincerely,

Thomas P. Hanafan  
Mayor